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Cornhusker Economics

Cooperative Extension

Institute of Agriculture & Natural Resources
Department of Agricultural Economics
University of Nebraska – Lincoln

Feed Cost – Critical to Pork Producers

Market Report	Yr Ago	4 Wks Ago	10/8/99
<u>Livestock and Products,</u>			
<u>Average Prices for Week Ending</u>			
Slaughter Steers, Ch. 204, 1100-1300 lb Omaha, cwt.	\$56.25	\$65.91	\$68.09
Feeder Steers, Med. Frame, 600-650 lb Dodge City, KS, cwt.	68.50	84.48	83.50
Feeder Steers, Med. Frame 600-650 lb, Nebraska Auction Wght. Avg.	*	82.75	89.28
Carcass Price, Ch. 1-3, 550-700 lb Cent. US, Equiv. Index Value, cwt.	90.65	102.15	107.94
Hogs, US 1-2, 220-230 lb Sioux Falls, SD, cwt.	29.00	32.00	32.75
Feeder Pigs, US 1-2, 40-45 lb Sioux Falls, SD, hd.	*	*	*
Vacuum Packed Pork Loins, Wholesale, 13-19 lb, 1/4" Trim, Cent. US, cwt.	97.10	108.50	102.20
Slaughter Lambs, Ch. & Pr., 115-125 lb Sioux Falls, SD, cwt.	65.50	74.18	*
Carcass Lambs, Ch. & Pr., 1-4, 55-65 lb FOB Midwest, cwt.	158.00	174.00	157.00
<u>Crops,</u>			
<u>Cash Truck Prices for Date Shown</u>			
Wheat, No. 1, H.W. Omaha, bu.	2.85	2.97	2.65
Corn, No. 2, Yellow Omaha, bu.	1.79	1.66	1.59
Soybeans, No. 1, Yellow Omaha, bu.	5.42	4.68	4.46
Grain Sorghum, No. 2, Yellow Kansas City, cwt.	3.15	2.91	2.66
Oats, No. 2, Heavy Sioux City, IA, bu.	*	1.11	1.09
<u>Hay,</u>			
<u>First Day of Week Pile Prices</u>			
Alfalfa, Sm. Square, RFV 150 or better Platte Valley, ton.	*	90.00	92.50
Alfalfa, Lg. Round, Good Northeast Nebraska, ton.	58.00	35.00	32.50
Prairie, Sm. Square, Good Northeast Nebraska, ton.	70.00	*	*
* No market.			

While low grain prices are burdensome for grain producers, they offer some relief for pork producers. Until live hog supplies decrease, producers are faced with a poor outlook for prices. Therefore, keeping control of input cost, especially feed cost, will be critical to success.

An evaluation of the cost of production for an average Nebraska pork producer was developed using the actual values obtained from the Nebraska Swine Enterprise Records and Analysis Program 1997 year-end report, adjusting for inflation and today's feed ingredient cost. The average producer in 1997 had an average herd size of 170 females. They produced 19.1 pigs per female per year and had an average of 3.49 pounds of feed per pound of pork produced. Table 1 shows the results of adjusting the 1997 producer reported numbers.

Table 1. Cost or Production 1999/2000

Average Nebraska Producer In 1997 Swine Records	Base	\$/Cwt. Adjusted
Utilities	\$1.02	\$1.07
Vet/Med	\$0.92	\$0.97
Other	\$6.00	\$6.30
Labor	\$4.83	\$5.07
Int. on Operating	\$2.38	\$2.38
Total Variable (Less Feed)		\$15.79
Fixed Cost	\$5.69	\$5.69

Starting with the base operation, Utilities, Vet / Med, Other and Labor were increased at the rate of 2.5% per year to allow for inflation. The interest costs were not changed as interest rates are nearly identical to the 1997



period. Depreciation and taxes also were not changed and few producers in this size group made significant investment changes in 1998 or 1999.

Feed ingredient costs through the Fall of 2000 were estimated using the futures market on corn and soybean meal. Corn prices were calculated using a 30¢ basis. Soybean meal contract values were not changed, as Eastern Nebraska producers can often purchase at or near futures values. An average whole herd ration (the amount of corn, soybean meal and miscellaneous ingredients) that averages breeding, nursery and finishing rations was used to calculate the amount of ingredients needed. Table 2 shows the contract values that were averaged for an annual cost.

Table 2.

CORN Estimated Basis of 30 cents		
Futures Contract Values 10/08/99		
Dec 99	\$1.98	\$1.68
Mar 00	\$2.10	\$1.80
May 00	\$2.17	\$1.87
July 00	\$2.22	\$1.92
Sept 00	\$2.29	\$1.99
Nov 00	\$2.35	\$2.05
Corn Cost		\$1.89
SOY MEAL No Basis		
Futures Contract Values 10/08/99		
Oct 99		\$151.30
Dec 99		\$152.30
Jan 00		\$152.90
Mar 00		\$154.60
May 00		\$154.50
July 00		\$156.70
Aug 00		\$157.50
Sep 00		\$157.50
Meal Cost		\$155

Using these contract values, the feed cost per hundred weight of hogs produced obtainable through the Fall of 2000 is \$16.55. Adding feed cost to the previously derived variable cost (\$15.79 from Table 1) gives a variable cost including feed, of \$32.34. Table 3 shows the recent Lean Hog Futures values and demonstrates that the average Nebraska producer, taking advantage of lower feed costs, can cover variable cost in five out of seven contract months. October & December 1999 being the exceptions. We used a \$5.00 basis per hundred weight, (\$3.70 live weight), compared to historic averages nearer \$2.00 live weight. Basis for the Lean Hog contract is poorly established and during the recent low market prices has become

very erratic.

Table 3. Lean Hog Values – Estimated Live Hog Prices in \$ /Cwt.

Lean Hog Futures		Basis	Live Wgt.
Futures Values as of 10/08/99		\$5.00	@.74 Lean
Oct 99	\$46.88	\$41.88	\$30.99
Dec 99	\$45.30	\$40.30	\$29.82
Feb 00	\$49.63	\$44.63	\$33.02
Apr 00	\$52.20	\$47.20	\$34.93
Jun 00	\$59.23	\$54.23	\$40.13
July 00	\$58.40	\$53.40	\$39.52
Aug 00	\$57.00	\$52.00	\$38.48

Nebraska's average and better producers can cover variable expenses and contribute towards covering fixed cost, even with the currently low pricing opportunity offered by the futures market. However, holding feed cost at or below those shown here is critical to success. For producers who have to buy corn (and for all producers looking at soybean meal cost) some price protection may be an advisable risk management tool. Using forward contracts with corn producers in your area may be one option. A second may be to use the call (right to buy a futures contract) option. Producers who produce their own corn may also want to consider their corn sold to the hog enterprise at today's price and consider a call option. There is a difference here in the way these transactions may be treated for income tax consideration. The producer who needs the corn may be able to treat the transaction as a true hedge. The producer who owns the corn may have to treat the transaction as a speculative transaction.

To learn more about your business cost and pricing your commodities, consider Marketing Blueprint, a Cooperative Extension Workshop coming in February 2000.

(Ration information provided for this article by Mike Brumm, Extension Swine Specialist, Haskell Agricultural Laboratory).

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